

Senate Study Bill 1170 - Introduced

SENATE FILE _____
BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL BY
CHAIRPERSON DANIELSON)

A BILL FOR

1 An Act providing for the creation of first-time homebuyer
2 savings accounts in Iowa, including related individual
3 income tax exemptions, making penalties applicable, and
4 including effective date and applicability provisions.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. 12I.1 Short title.

2 This chapter may be cited as the "*Iowa First-time Homebuyer*
3 *Savings Account Act*".

4 Sec. 2. NEW SECTION. 12I.2 Definitions.

5 As used in this chapter, unless the context otherwise
6 requires:

7 1. "*Account holder*" means a first-time homebuyer who is a
8 resident of this state and who establishes, either individually
9 or jointly with the resident's spouse who is also a first-time
10 homebuyer, a first-time homebuyer savings account. A person
11 ceases to be an account holder following the purchase of a
12 principal residence after the establishment of a first-time
13 homebuyer savings account.

14 2. "*Business day*" means a day other than a Saturday, Sunday,
15 or federal holiday.

16 3. "*Eligible costs*" means the down payment and allowable
17 closing costs for the purchase of a principal residence in Iowa
18 which principal residence is purchased after the establishment
19 of the first-time homebuyer savings account.

20 4. "*First-time homebuyer*" means an individual who has never
21 owned or purchased under contract for deed, either individually
22 or jointly, a single-family, owner-occupied residence,
23 including but not limited to a manufactured or mobile home that
24 is assessed and taxed as real estate or taxed under chapter
25 435 or taxed under other similar law of another state, or a
26 condominium unit.

27 5. "*First-time homebuyer savings account*" means an account
28 established with a state or federally chartered bank, savings
29 and loan association, credit union, or trust company in this
30 state to finance the purchase of a principal residence in this
31 state.

32 6. "*Principal residence*" means a single-family,
33 owner-occupied residence in the state that will be the
34 principal place of residence of the account holder, whether
35 owned or purchased under contract for deed by the account

1 holder, individually or jointly. "*Principal residence*" includes
2 but is not limited to a manufactured home or mobile home that
3 is assessed and taxed as real estate or taxed under chapter
4 435, and a condominium unit.

5 7. "*Resident*" means the same as defined in section 422.4.

6 Sec. 3. NEW SECTION. 12I.3 First-time homebuyer savings
7 account.

8 1. *Establishment.*

9 a. A first-time homebuyer who is a resident of this
10 state may establish, either individually or jointly with
11 the resident's spouse who is also a first-time homebuyer, a
12 first-time homebuyer savings account to finance the purchase
13 of a principal residence. Married taxpayers electing to file
14 separate tax returns or separately on a combined tax return
15 shall not establish or maintain a joint first-time homebuyer
16 savings account.

17 b. The account holder who establishes the first-time
18 homebuyer savings account, individually or jointly, is the
19 owner and administrator of the account.

20 c. A first-time homebuyer savings account shall be an
21 interest-bearing savings account.

22 d. A financial institution shall not be responsible for
23 the use or application of funds within a first-time homebuyer
24 savings account solely because the account is held at that
25 financial institution.

26 2. *Use and administration by account holder.*

27 a. The account holder shall use the money in the first-time
28 homebuyer savings account for eligible costs related to the
29 purchase of a principal residence within ten years following
30 the year in which the account is first established.

31 b. An account holder shall not contribute to a first-time
32 homebuyer savings account for a period exceeding ten years.

33 c. There is no limitation on the amount of contributions
34 that may be made to or retained in a first-time homebuyer
35 savings account.

1 *d.* The account holder shall not use funds held in a
2 first-time homebuyer savings account to pay expenses, if any,
3 of administering the account, except that a service fee may be
4 charged to the account by the financial institution where the
5 account is held.

6 *e.* Documentation regarding the segregation of funds in
7 a first-time homebuyer savings account from other funds and
8 documentation regarding eligible costs for the purchase of a
9 principal residence shall be maintained by the account holder.
10 The burden of proving that a withdrawal from a first-time
11 homebuyer savings account was made for eligible costs is upon
12 the account holder.

13 *f.* Within thirty days of being furnished proof of death
14 of the account holder, the financial institution where
15 the first-time homebuyer savings account is held shall
16 distribute any amount remaining in the first-time homebuyer
17 savings account to the estate of the account holder or to a
18 transfer on death or pay on death beneficiary of the account
19 properly designated by the account holder with the financial
20 institution.

21 *g.* The account holder shall file reports with the department
22 of revenue as reasonably required by the department of revenue.

23 *h.* The account holder is required to remit the withdrawal
24 penalty in section 422.7, subsection 57, paragraph "c", if
25 assessed, to the department of revenue in the same manner as
26 provided in section 422.16, subsection 2.

27 3. *Penalties.* A person who knowingly prepares or causes to
28 be prepared a false claim, statement, or billing to justify the
29 withdrawal of money from a first-time homebuyer savings account
30 is guilty of a serious misdemeanor for each violation.

31 Sec. 4. NEW SECTION. 12I.4 **Tax considerations.**

32 The state income tax treatment of a first-time homebuyer
33 savings account shall be as provided in section 422.7,
34 subsection 57.

35 Sec. 5. NEW SECTION. 12I.5 **Rules.**

1 The director of revenue and the treasurer of state shall
2 each adopt rules to jointly implement and administer this
3 chapter.

4 Sec. 6. Section 422.7, Code 2015, is amended by adding the
5 following new subsection:

6 NEW SUBSECTION. 57. *a.* Subtract the amount of
7 contributions made by an account holder to the account holder's
8 first-time homebuyer savings account during the tax year, not
9 to exceed three thousand dollars per individual per tax year,
10 or six thousand dollars per tax year for a married couple who
11 have a joint first-time homebuyer savings account and file a
12 joint return. An amount of contributions made during a tax
13 year in excess of three thousand dollars, or six thousand
14 dollars, as applicable, may be subtracted by an account holder
15 in a subsequent tax year, provided the total exemption under
16 this paragraph for the subsequent tax year does not exceed
17 three thousand dollars, or six thousand dollars, as applicable.
18 This paragraph shall not apply to an account holder more
19 than ten years after the account holder first establishes a
20 first-time homebuyer savings account.

21 *b.* Subtract, to the extent included, income from interest
22 and earnings received from an account holder's first-time
23 homebuyer savings account. This paragraph "b" shall not apply
24 to any interest and earnings received by an account holder more
25 than ten years after the account holder first establishes a
26 first-time homebuyer savings account.

27 *c.* (1) Add, to the extent previously subtracted under
28 paragraph "a", the amount resulting from a withdrawal made from
29 a first-time homebuyer savings account for purposes other than
30 the payment of eligible costs of the account holder. If the
31 withdrawal is made on a day other than the last business day
32 of the calendar year, such withdrawal shall also be assessed a
33 penalty in an amount equal to ten percent of the amount of the
34 withdrawal. The penalty shall not apply to withdrawals made on
35 account of the death of the account holder.

1 (2) For purposes of this paragraph "c", any amount remaining
2 in a first-time homebuyer savings account of an account holder
3 on the day after the purchase of a principal residence or the
4 last business day of the tenth calendar year following the
5 calendar year in which the account holder first establishes a
6 first-time homebuyer savings account, whichever occurs first,
7 shall be considered a withdrawal under subparagraph (1).

8 (3) For purposes of this paragraph "c", the following shall
9 not be considered a withdrawal under subparagraph (1):

10 (a) Any amount transferred between different first-time
11 homebuyer savings accounts of the same account holder by a
12 person other than the account holder.

13 (b) Any amounts withdrawn or otherwise transferred from a
14 first-time homebuyer savings account pursuant to an order in
15 bankruptcy.

16 d. For purposes of this subsection, "account holder",
17 "business day", "eligible costs", and "first-time homebuyer
18 savings account" all mean the same as defined in section 12I.2.

19 Sec. 7. EFFECTIVE DATE. This Act takes effect January 1,
20 2016.

21 Sec. 8. APPLICABILITY. This Act applies to tax years
22 beginning on or after January 1, 2016.

23 EXPLANATION

24 The inclusion of this explanation does not constitute agreement with
25 the explanation's substance by the members of the general assembly.

26 This bill allows first-time homebuyers who are residents
27 of Iowa to establish a first-time homebuyer savings account
28 (account) with a state or federally chartered bank, savings and
29 loan association, credit union, or trust company in this state
30 to finance the purchase of a principal residence in this state.
31 "First-time homebuyer" and "principal residence" are defined in
32 the bill. The account is required to be an interest-bearing
33 savings account. The account may be established individually
34 or jointly with the resident's spouse. However, married
35 taxpayers electing to file separate tax returns or separately

1 on a combined tax return shall not establish or maintain a
2 joint account.

3 There is no limitation on the amount of contributions that
4 may be made to or retained in a first-time homebuyer savings
5 account. An account holder is required to use the funds in
6 an account for eligible costs related to the purchase of a
7 principal residence within 10 years following the year in which
8 the account is first established.

9 "Eligible costs" are defined in the bill and include the down
10 payment and allowable closing costs of a principal residence
11 that was purchased after the establishment of the account. If
12 the account holder withdraws funds for any purpose other than
13 the payment of eligible costs, the account holder is subject
14 to a penalty equal to 10 percent of the withdrawal, unless the
15 withdrawal occurs on the last business day of the calendar year
16 or was because of the death of the account holder. The penalty
17 amounts are required to be remitted by the account holder to
18 the department of revenue in the same manner as Code section
19 422.16(2), relating to the withholding of income tax. A person
20 ceases to be an account holder following the purchase of a
21 principal residence after the establishment of an account.

22 Accounts are required to be administered by the account
23 holder. The bill prohibits the account holder from using
24 account funds to pay administrative expenses of the account,
25 but the bill does allow a financial institution where the
26 account is held to charge a service fee. Documentation
27 regarding the segregation of funds in the account from other
28 funds and documentation regarding eligible costs shall be
29 maintained by the account holder. The bill also requires the
30 account holder to file reports as required by the department of
31 revenue. Within 30 days of being furnished proof of death of
32 the account holder, the financial institution where the account
33 is held shall distribute the funds to the estate of the account
34 holder or to a transfer on death or pay on death beneficiary
35 properly designated by the account holder.

1 The bill provides for two individual income tax incentives
2 relating to first-time homebuyer savings accounts. First,
3 an account holder is allowed to subtract from the individual
4 income tax the amount of contributions made during the year
5 to the account holder's account, not to exceed \$3,000 per
6 individual, or \$6,000 for a married couple with a joint account
7 and filing a joint income tax return. If the account holder
8 contributes more than that amount, the excess may be subtracted
9 in a subsequent tax year provided the total exemption in any
10 one tax year does not exceed \$3,000 or \$6,000, as applicable.
11 Second, the bill exempts any interest or earnings received from
12 an account holder's account. Both the contribution exemption
13 and interest exemption only apply for the first 10 years after
14 the account holder establishes an account.

15 The bill requires an account holder to add to net income the
16 amount of withdrawal from an account that was made for purposes
17 other than eligible costs of the account holder to the extent
18 it was previously subtracted as a contribution. Any amount
19 remaining in an account on the day after an account holder
20 purchases a principal residence or on the last business day of
21 the 10th calendar year following the calendar year the account
22 holder first establishes an account, whichever occurs first,
23 shall be considered a withdrawal that must be added to net
24 income to the extent it was previously subtracted. However,
25 amounts transferred between different accounts of the same
26 account holder by a person other than the account holder or
27 amounts withdrawn pursuant to an order in bankruptcy shall not
28 be considered withdrawals that must be added to net income.

29 The bill makes it a serious misdemeanor to knowingly prepare
30 or cause to be prepared a false claim, statement, or billing
31 to justify the withdrawal of money from a first-time homebuyer
32 savings account. A serious misdemeanor is punishable by
33 confinement for no more than one year and a fine of at least
34 \$315 but not more than \$1,875.

35 The bill requires the director of revenue and the

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1 treasurer of state to each adopt rules to jointly implement and
2 administer the bill.

3 The bill takes effect January 1, 2016, and applies to tax
4 years beginning on or after that date.